Investment Climate

Contents

A. French Investment Regime

Ensuring that France's investment climate is attractive to foreign investors is a priority for the French government, which sees foreign investment as a way to create durable jobs and stimulate growth. Investment regulations are simple, and a range of financial incentives for foreign investors are available. A public and commercial establishment, the French Agency for International Investment (Agence Française pour les Investissements Internationaux – AFII) integrates all offices responsible for promoting investment in France. The agency combines the overseas offices of the Invest in France Agencies (IFA), with the Invest in France Network (IFN) association.

Foreign investors say they are attracted to France by its skilled and productive labor force; its central location in Europe with its free movement of people, services, capital and goods that took on even greater significance with the introduction of Euro coins and bills in January 2002; good infrastructure; and its technology-oriented society. However, despite a decade or more of economic reforms and liberalization, U.S. and foreign companies often point to very high payroll and income taxes, pervasive regulation of labor and products markets, and sometimes negative attitudes toward foreign investors as disincentives to investing in France.

A1. Openness to Foreign Investment

The Formal Investment Regime

The formal French investment regime is among the least restrictive in the world. There is no generalized screening of foreign investment. Only acquisitions, irrespective of size or the nationality of the investors, involving public order the national security of France or the national defense interests or research-production-sales of armament, ammunition, powders, and explosive substances are subject to prior approval by the Finance Minister ([http://www.legifrance.gouv.fr] – search for 10 December 2004 French Official Journal – loi no 2004-1343 du 9 decembre 2004 de simplification du droit). Nevertheless, there are certain sector-based foreign investment restrictions that in practice tend to favor investors from other EU countries. France has notified the OECD of restrictions in the following sectors:

Agriculture	Aircraft Production
Air Transport	Atomic Energy
Audiovisual	Banking/Financial Services/Accounting Services
Defense Industry	Insurance
Maritime Transportation	Publishing
Radio and Television	Road Transportation
Telecommunications	Tourism

More details can be found in OECD reports. The OECD Internet address is [http://www.OECD.org].

In applying sector restrictions, French authorities look to the place of residence, rather than to the nationality, of a potential investor. The place of residence of a corporate investor is determined by the place of residence of its ultimate beneficial owners, without regard to place of incorporation. While firms owned or controlled by American citizens legally resident in an EU country will usually be considered as EU residents, France will normally consider the following entities with American ownership or participation to be non-EU residents:

- Firms established or incorporated in other EU countries, but owned or controlled by American residents.
- For publicly traded entities, firms where non-EU residents own more than 20 percent of a firm's capital.
- For non-publicly traded entities, firms where non-EU residents ultimately own or control more than 33.3 percent of a firm's capital, unless physical persons who are EU residents also own more than 50 percent of the firm's capital.

However, for publicly and non-publicly traded firms, the French government retains the authority to declare that a firm is controlled by non-EU investors, even if the share of capital held by non-EU investors falls short of the thresholds noted above. To determine if non-EU investors control a firm, the French government may look at, among other factors, the residency of members of the board of directors, and the ability of non-EU investors to veto key management decisions or commercial ties (such as loans, guarantees, options, licenses, or contracts) if these factors effectively make the French company dependent on foreign investors. Firms with questions about their residency status should contact the Office of Foreign Investments at the following addresses:

Ministère de l'Economie, des Finances et de l'Industrie,
Direction du Trésor :

Service du Financement de L'Economie
Bureau B1 Epargne et Marché Financier
139, rue de Bercy
75012 Paris, France
Tel: (33)- 1- 40-04-04-04

Agence des Participations de l'Etat
139, rue de Bercy
75012 Paris, France
Tel: or (33)- 1- 40-04-04-04

The AFII website ([http://www.afii.fr/NorthAmerica] in English) provides basic regulations covering foreign direct investment, and a general framework on legal issues to help business decisions, notably in its "Doing Business in France" report. The website of the Paris Chamber of Commerce and Industry provides English summaries of regulations applicable to foreign direct investment: [http://www.CCIP.fr/index.asp?idmetapage=17].

Informal Impediments to Foreign Investors

The January 1, 1999 introduction of the Euro as the single currency of the European Monetary Union (EMU), including France, has increased the competitive pressures on France to improve its domestic business and investment climate in order to promote growth and create new jobs. In addition, France has responded to a more competitive international investment climate by implementing market-oriented economic reforms that increase the attractiveness of the French economy to foreign investors, and by offering a variety of investment incentives. Foreign investors also say they are attracted to France by its central location in Europe, highly skilled labor force, and good infrastructure (although France continues to lag behind the U.S. and some other European countries in personal computer use and Internet access).

Yet, while today's foreign investors face far less interference than was once the case, more than a decade of reforms has not entirely overcome a traditional preference for national control of business and a sometimes-reflexive opposition to foreign investment. In some cases, this can be seen in labor organization opposition to acquisitions of French businesses by U.S. firms, often reflecting a perception that U.S. firms focus on short-term profits at the expense of employment. In other cases, French firms have stated a preference for working with French and European, rather than U.S. firms. A degree of opaqueness in the privatization process (see below) can also aggravate suspicions about the equal treatment of foreign investors in publicly held firms.

In addition, deregulation is far from complete and the state remains very involved in economic life. There is extensive regulation of business and labor markets, and business taxation rates are high compared to other leading industrial countries. Foreign investors most often cite complicated and pervasive labor regulation and high income and payroll taxes as the greatest disincentives to investing in France. In the case of labor market regulation, the impact on companies of the 35-hour legal workweek is mixed. Many companies took the opportunity of negotiations with employees on the switch to the 35-hour workweek to implement work-hour annualization or greater labor flexibility. Companies also benefited from a further cut in payroll taxes on low wages. On the negative side, the 35-hour workweek mechanically increased labor costs since wages remained unchanged. The government is taking measures to make the law less rigid (See D. Labor)

The French and U.S. business communities initially described France's new "social modernization law", passed in July 2001, as creating burdensome new obligations. The center-right government elected in 2002 is selectively implementing the law through its power over implementing decrees. In addition, the Government has a broad range of investment promotion and competitiveness measures in the legislative pipeline.

In making its annual decision on raising the minimum wage by 5.8% (effective July 2004), the Government aimed at stimulating household consumption, the motor of economic growth. By giving the biggest increases to those who are the poorest paid this year, the Government has also reduced the differential between the six different minimum pay levels, themselves the result of the differing years when people switched to the 35-hour week. Total convergence between the six levels will be achieved in 2005. Despite the increase in the minimum wage, wages in the private and public sectors are expected to accelerate only slightly compared with last year (2.5% compared with 2.4% in 2003) as the high unemployment rate restrains wage demands. The government decision to resume income tax cuts in 2006 should benefit the French economy, making France a more attractive place for both French and foreign investment.

The French treat two social security taxes, the "Contribution Sociale Generalisée" (CSG) and the "Contribution au Remboursement de la Dette Sociale" (CRDS), as social security contributions. U.S. contributors to the U.S. Social Security system do not pay these taxes. (Based on the "May 2 2001-377 ordonnance" to apply the 1408/71 EEC regulation, only "individuals who are subject to income taxes in France and contribute to the French social security system including health insurance pay CSG and CRDS". The related "circulaire d'application" was published in the May 20, 2001 "Bulletin Officiel du Travail, de l"Emploi et de la Formation Professionnelle" [http://www.travail.gouv.fr/publications].

On December 8, 2004, the United States amended the income tax convention between the United States and France to avoid double taxation and the prevention of fiscal evasion, and the estate and gift tax convention to avoid double taxation with respect to taxes on estates, inheritances and gifts [http://www.treas.gov/offices/tax-policy/treaties.shtml].

English summaries of labor and tax regulations applicable to foreign companies in France are available at the AFII's website [http://www.afii.fr/France/Doing Business/db_2004_taxation_en.pdf] and at the Paris Chamber of Commerce and Industries' website [http://www.CCIP.fr/index.asp?idmetapage=17].

France's Privatization Program

The former Socialist-led government that took office in July 1997 returned to the private sector all or parts of its stakes in a number of large companies, banks and insurance groups. U.S. firms showed interest in some of these sales. The current center-right government, elected in 2002, announced preliminary plans, but the global slump in the air transportation and overall equity market declines put a brake in privatizations through the sale of shares. In 2003 and 2004, the government reduced its stakes in large companies such as Air France-KLM (to 44.6 from 54.0 percent), France Telecom (to 42.2 from 54.5 percent), Thales (formerly Thomson CSF, to 31.3 from 33.3 percent), Renault (to 15.6 from 26.0 percent), and Thomson (to 2.0 from 20.8 percent through TSA). Smaller projects were carried out: privatizations of SAPRR (Paris-

Rhin-Rhone highway company), and of the electricity company SNET. Plans to open the capital of three major energy-sector companies (EDF, GDF and Areva) in 2005 are announced. Other projects are in the pipeline: merger of Snecma with Sagem, capital opening of Aeroports de Paris and of SANEF (North and East highway company), and sales of Air France-KLM shares to employees. The government still has stakes in Bull, EADS, Dassault Systemes and a myriad of other firms, and has stated its intention to continue privatization, based largely on the same criteria as the Socialists had used.

Sales of government interests are conducted either through market-based public offerings or, more often, through an off-market bidding process. In both cases, key decisions are made by the Ministry of Economy, Finance and Industry on the advice of the quasi-independent "Commission des Participations et des Transferts" (formerly known as the Privatization Commission). Both of these consider financial and business plans submitted by bidders. While there is a strict legal and procedural process regulating these decisions, the confidential nature of off-market sales can raise suspicions about the equal treatment of foreign versus French bidders. This can in itself have a chilling effect on foreign investment. In the past, a policy of selling former holdings to "core" shareholders in an effort to avoid the splitting-up of companies or sales of sensitive state assets to foreign investors also hampered market efficiency and tended to favor French firms.

When privatizing state-owned firms either through off-market placements or market-based offerings, the 1993 privatization law gives the French government the option to maintain a so-called "golden share" to "protect national interests." This provision is not specifically targeted at foreign companies, and has not been a part of every privatization operation. A golden share gives the government three legal rights:

- To require prior authorization from the Ministry of the Economy, Finance and Industry for any investor or group of investors acting in concert to own more than a certain percentage of a firm's capital. The thresholds would apply to all investors;

- To name up to two non-voting members to the firm's board of directors; and

- To block the sale of any asset to protect "national interests." Assets could include shares, but buildings, technology, patents, trademarks, and any other tangible or intangible property.

The French Government will have to reconsider its use of golden shares in future privatization operations following the June 2002 European Court of Justice's decision to reaffirm the basic principle of free movement of capital in the EU. The Court stated that the use by some EU countries, including France, of golden shares was a serious impediment to that principle. Nonetheless, the Government is considering holding a golden share in the privatization of Areva due to loopholes in the court's judgment. Areva's chairman stated that the golden share could be consistent with EU requirements.

French Government Participation in R&D Programs

With 2.2 percent of GDP devoted to R&D in 2004, France's effort in R&D remains stable. The French government (GOF) contributes roughly 1 percent of GDP and the industrial sector 1.2 percent. The GOF plans to increase R&D spending to 3 percent of GDP by 2010, with two percent coming from the private sector. The French government relies on increased tax credits and incentives for the development of new investment structures to boost industrial research.

In 2005, the GOF intends to create two agencies to prioritize, fund, and evaluate industrial innovation and scientific research. It also supports the creation of high-technology centers ("technopoles", "genopoles") to support local development policies and foster cross-fertilization between research and innovation.

The GOF sponsors R&D and technology development programs at three different levels:
1. International/European programs (e.g. ESA, CERN, EUREKA, EU Framework program);
2. Technology development programs in the private sector (approx. 46 percent of R&D expenditures are funded by the French government), with specific programs to encourage transfer of research and to aid small and medium firms; and
3. National research programs (Civilian R&D budget administered by the Research Ministry), with specific emphasis given to health and biotech (fight against cancer, research on aging and handicaps, focus on new epidemics, genomics/genetics); resource management (including food resources, food safety, water management), sustainable development and fight against greenhouse gases (research on clean vehicles, new energies, energy storage and use of hydrogen, nuclear fusion); information and communication technologies; nanotechnologies; and space.

The breakdown of the 2004 Civilian R&D budget is as follows:

- Life sciences: 24 percent
- Space: 15 percent
- Math, physics, chemistry: 12 percent
- Environment: 10 percent
- Humanities and social sciences: 10 percent
- Information and communication technologies: 10 percent
- Transports, aeronautics, materials and processes: 9 percent
- Energy: 7 percent
- Others: 3 percent.

For access to R&D subsidies, the French government provides national treatment to all foreign companies registered in France, allowing them to receive the same treatment as French companies. U.S. companies have experienced no difficulty in participating in these opportunities.

<u>Visas, Work Requirements</u>

The government of France requires that foreign citizens complete extensive procedures if they wish to work in France. The requirements are essentially the same whether foreign citizens work for French or foreign-controlled firms. Non-EU nationals who intend to work or conduct any commercial activity in France must receive a long-term visa and a work permit (Carte de travail) or business permit (Carte de commerçant - foreign trader's card) before establishing residence in France. Information can be obtained from French consulates in the United States. The web address is [http://www.info-france-usa.org/intheus/consulates.asp]. For more information on the foreign trader's card, please consult the Invest in France agency Web site at:[http://www.investinfrance.org/France/Living/Expatriate/?p=formalities&1=en]. For more detailed information on other types of visas and applicable fees, contact your local Consulate General of France. In addition, a foreigner's ability to practice a profession may be curtailed by government regulation and the regulations of French professional associations. For example, lawyers seeking to practice in France must become members of the French bar before they can practice any type of law under their own names. This requires passing the bar examination in French. A number of legislative changes to these regulations are under consideration, and may be implemented in 2005.

A2. Conversion and Transfer Policies

All inward and outward payments must be made through approved banking intermediaries by bank transfers. There is no restriction on repatriation of capital. Similarly, there are no restrictions on transfers of profits, interest, royalties, or service fees. Foreign-controlled French businesses are required to have a resident French bank account and are subject to the same regulations as other French legal entities. The use of foreign bank accounts by residents is permitted.

France has little effective foreign exchange control regulations. For exchange control purposes, the French government considers foreigners as residents from the time they arrive in France. French and foreign citizens are subject to the same rules. Residents are entitled to open an account in foreign currency with a bank established in France and to establish accounts abroad. Residents must report the account number for all foreign accounts on their annual income tax returns. French-source earnings may be transferred abroad.

As part of the international effort to combat money laundering and the financing of terrorism, France's banking regulations have undergone several changes, which affect the handling of checks, as recommended by the Financial Action Task Force. Additional changes are expected. France sometimes uses its powers under national law to execute asset freeze orders against terrorists, as well as operating within EU structures.

A3. Expropriation and Compensation

Under French law, private investors are entitled to compensation if their properties are expropriated, and such compensation must be adequate and paid promptly. In France's bilateral investment treaties, the French government promises to provide both prompt and adequate compensation. There have been no recent disputes involving expropriation of U.S. investments.

A4. Dispute Settlement

There have been few major disputes involving established U.S. firms in recent years. Government decisions in investment cases can be appealed to administrative tribunals and ultimately to the Council of State (Conseil d'Etat). The rights of U.S. investors are also protected by the U.S.-French bilateral convention (see Section B below).

The judicial system is independent. Property and contractual rights are enforced by the French civil code. Judgments of foreign courts are accepted and enforced by courts in France once they have been "declared executor" by a French judge through "executor" proceedings (Art. 2123 of the French Civil Code and Art. 509 of the Civil Procedure Code). However, in some civil cases and in bankruptcy cases, foreign judgments are recognized and enforced by French courts without executor proceedings.

France is a member of the World Bank's International Center for the Settlement of Investment Disputes (ICSID – [http:// www.WORLDBANK.org/ICSID]). In addition, in most of its bilateral investment treaties (BIT's) it has agreed to accept binding arbitration to resolve investor-state disputes. However, most of France's BIT partners are developing countries whose investors have few investments in France. (See below).

A5. Performance Requirements and Incentives

Investment Incentives

France offers a range of financial incentives to foreign investors. The following information reflects incentives as they existed at time of this writing. The government has a broad range of investment and competitiveness measures in the legislative pipeline, with implementation expected in 2005.

France's domestic planning and investment promotion agency, DATAR (Délégation à l'Aménagement du Territoire et à l'Action Régionale), provides extensive assistance to potential investors. In addition, financial subsidies and tax incentives are offered at the local, regional and national government level to attract investment to France's less affluent areas. Incentives are available equally to French and foreign investors and eligibility requirements are the same.

Within the French government, foreign investment promotion is the responsibility of the AFII "Invest in France Mission" headed by an ambassador at-large, who is based at the Ministry of the Economy, and backed up by DATAR. DATAR maintains offices throughout France and around the world to seek out and advise potential investors on project development, site selection, investment incentives (the largest of which are administered by DATAR) and administrative and legal requirements. DATAR's overseas offices where re-named "Invest in France Agencies" (IFA -- IFANA in North America) in 2001. There are three DATAR/IFANA offices in the United States [http://www.afii.fr/NorthAmerica/AboutUs/Contact/?l=en]:

Northern and Eastern States
IFANA New York
810 Seventh Avenue, Suite 3800
New York, NY 10019
Tel: (212) 757-9340
Fax: (212) 245-1568

Western and Southern States

IFANA Palo Alto
575 High Street, Suite 340
Palo Alto,
CA 94301-1663
Tel: 650/326-8440
Fax: 650/326-8438

Midwestern States
IFANA Chicago
205 North Michigan Avenue, Suite 3750
Chicago, IL 60611
Tel: (312) 628-1054
Fax: (312) 628-1033

The AFII and DATAR internet addresses are [http://www.InvestinFrance.org], and [http://www.DATAR.gouv.fr], respectively.

The primary investment incentive offered through DATAR is the Prime d'Amenagement du Territoire (PAT). DATAR has revised downward the PAT program at the European Commission's request. Nonetheless the PAT incentives remain generous for investment in disadvantaged zones (parts of north and central France, and Corsica). The list of eligible zones will stay the same until December 31, 2006. Interestingly the current PAT system is more supportive of small- and medium sized companies in the industry, services, and research and development sectors. (New rules were issued in the April 13, 2001 and June 6, 2001 "Journal Officiel"). Other investment incentives may also be available. New related criteria have been set for the 2000-2006 period. Potential investors should consult DATAR and AFII to determine the full range of possibilities, including,

- Research and development project grants
- Special tax treatment for company headquarters
- Local and regional tax holidays and special subsidies
- "Industrial conversion" zones featuring tax breaks and grants for job-creation
- Special access to credit for small and medium-sized enterprises
- Assistance for training, including a portion of wages paid to employees in training

Besides DATAR/IFA at the national level, several French cities and regions have developed their own investment promotion agencies that advise potential investors, offer administrative assistance, and oversee investment incentives. The February 2002 Local Democracy Law ("Democratie de proximite" – www.legifrance.gouv.fr) gives regional councils ("Conseils Regionaux") full powers to establish (without decree or national convention) schemes for direct aids to companies (subsidies, reduced interest rates on loans, and advances). Each "Conseil Regional" has it own website. A list of their addresses is available on [http://www.fr.yahoo.com] (search "conseil regional" and select the appropriate region).

All incentives are covered by regulations set by the European Commission.

Performance Requirements

Other than those linked to incentives, there are no mandatory performance requirements established by law. However, the French government will generally require commitments regarding employment or research and development from both foreign and domestic investors seeking government financial incentives. For example, to be eligible for DATAR grants, the French government usually requires that firms, whether owned by EU or non-EU residents, create a minimum of 15 jobs within the first three years. As noted above, PAT and R&D subsidies are based on the number of jobs created. In addition, the authorities have occasionally sought commitments as part of the approval process for acquisitions by foreign investors.

Nonetheless, foreign firms need the French government's approval on a variety of regulatory issues, and in France, officials generally have much wider discretion than their U.S. counterparts. This can leave firms subject to "unwritten" performance requirements, with regulatory officials making it known that a firm's request would be more favorably viewed if it increased employment, R&D, or exports.

A6. Right to Private Ownership and Establishment

The French government maintains legal monopolies in the following sectors: postal services (La Poste), national rail transportation (SNCF), Parisian bus and metro services (RATP), and tobacco manufacturing and distribution (Seita). The electricity and gas Companies (EDF/GDF) no longer have monopolies on production, distribution and sale of electricity and gas. Market opening has surpassed 37 percent (by volume) of the electricity market and 20 percent of the gas market -- meaning that that proportion of customers is free to choose another supplier, although few have. In July 2004, the option to switch suppliers was opened to all commercial customers. After a critical piece of energy sector reform legislation passed that same month, the first public sales of shares for EDF and GDF are expected to begin as early as late-2005, leading effectively to a partial privatization of the two companies. However, the new law requires the GOF to retain at least a 70 percent interest. These share sales may be complicated and/or delayed by questions over the companies' valuation as well as their large unfunded pension liabilities.

A7. Protection of Property Rights

France is a strong defender of intellectual property rights and has highly developed protections for intellectual property. Under the French system, patents and trademarks protect industrial property, while literary/artistic property is protected by copyrights. By virtue of the Paris Convention and the Washington Treaty regarding industrial property, U.S. Nationals have a "priority period" after filing an application for an U.S. patent or trademark, in which to file a corresponding application in France. This period is twelve months for patents and six months for trademarks. In July 2004, the French government, internet access providers and authors and producers of music signed a "Charter to fight piracy and develop legal offers of music online." This charter allows access providers to address a warning message to Net surfers and to remove subscription rights of people condemned for hacking.

A8. Transparency of the Regulatory System

The French government has made considerable progress in recent years improving the transparency and accessibility of its regulatory system. Government Ministers, companies, consumer organizations and trade associations may petition the Unfair Competition Council to investigate anti-competitive practices.

Of most concern to foreign companies has been standards setting. With standards different from those in the U.S., rigorous testing and approval procedures must sometimes be undertaken before goods can be sold in France, particularly those that entail risk. When EU-wide standards do not exist, specific French standards apply. The United States and the EU have negotiated mutual recognition agreements covering the testing and certification of certain specified regulated products. Information about these agreements and efforts to extend them can be found at the website of the Trans-Atlantic Business Dialogue, [http://www.TABD.com]. The National Institute of Standards and Technology, [http://www.NIST.gov], is represented at the International Bureau of Weights and Measures, [http://www.BIPM.fr], located in Sevres, France, and may be of assistance to firms.

Industry associations have an influential role in developing both government policies and influencing self-regulatory organizations. U.S. firms may find it useful to become members of local industry groups. Experience has shown that even "observer" status can offer U.S. firms an insight into new investment opportunities and greater access to government-sponsored projects, even if U.S. firms sometimes feel they are not always given an adequate opportunity to participate in the determination of regulations.

A9. Efficient Capital Markets and Portfolio Investment

Access to Capital and Capital Markets

France has an open financial market that gives firms easy access to a variety of financial products in both French and international markets. As markets expand, foreign and domestic portfolio investment has become increasingly important. France continues to modernize its marketplace, introducing tax-advantaged retirement funds in 2004. Facing the prospect of increasingly tough competition with other European marketplaces following the introduction of the Euro, French financial markets are continually updating and adapting their products, procedures and services. France is actively involved in the effort to create a system of internationally accepted accounting standards (to read more, go to [http://www.iasb.org.uk] or search the SEC's website at [http://www.SEC.gov]. Most EU listed companies will be required to use international accounting standards from 2005. French market and banking regulators continue to enhance and develop cooperation with their foreign counterparts. French legal, regulatory and accounting systems may not be as transparent as U.S. systems, but are consistent with international norms.

Commercial banks offer all classic financing instruments, including short, medium, and long-term loans, short-and medium-term credit facilities, and secured and non-secured overdrafts. Commercial banks also assist in public offerings of shares and corporate debt, and mergers, acquisitions and takeovers. Banks offer hedging services against interest rate and currency fluctuations. France also had 157 foreign banks with total assets of USD 124 billion at the end of 2003, some with sizable branch networks. Foreign companies have access to all banking services. Although some subsidies are available for home mortgages and small business financing, most loans are provided at market rates.

Increasingly, firms in France are bypassing banks and going directly to financial markets for their financing needs. The center of the French market is the Euronext stock exchange. Euronext N.V., a holding company incorporated under Dutch law, was formed on 22 September 2000 when the exchanges of Amsterdam, Brussels and Paris merged. The Euronext group expanded at the beginning of 2002 with the acquisition of LIFFE (London International Financial Futures and Options Exchange) and the merger with the Portuguese exchange BVLP (Bolsa de Valores de Lisboa e Porto). As of December 2004, Euronext listed 1,333 companies (of which 300 are foreign excluding countries members of Euronext), with a total capitalization of USD 2.3 billion. In February 2005, Euronext Paris plans to merge the three separate markets of the Paris exchange, the cash market (“Marche au Comptant”), the regulated market (“Second Marche”) and the “Nouveau Marche” (growth segment) on which new companies, especially smaller ones with an emphasis on growth and technology, can raise start-up capital. The new market list ("Eurolist") will be split in three segments based on the capitalization of companies (150 million euros, 150 million to 1 billion euros, and more than 1 billion euros). The changes are aimed at improving liquidity and visibility of small- and medium-sized companies. A financial futures market, the "Marché à Terme des Instruments Financiers," commonly known as the MATIF, trades standard contracts on interest rates, short- and long-term bonds, stock market indices, and commodities. It has established linkages with its German and Swiss counterparts as well as with the Chicago Mercantile Exchange. Options are traded on the "Marché des Options Négociables de Paris (MONEP)" exchange. These markets operate under the auspices of the Paris Bourse, whose website address is [http://www.euronext.com] including a link with [htpp://www.bourse-de-paris.fr]). Finally, though not nearly as developed as in the United States or the United Kingdom, venture capital markets ('Marche Libre" and "Marche de gre a gre") have become increasingly important ways for start-up firms to raise funds. In 2005, Euronext will create a new market "Alternext" to offer companies a new unregulated market (based on the legal definition of the European investment services directive) and more safety than the "Marché Libre," which will continue to operate.

Foreigners hold approximately 35.0 percent of the capital of publicly traded French companies. For a foreign company incorporated in an OECD country to be listed on the Euronext stock exchange, it must be sponsored by a French bank or broker and prepare a French language prospectus to get a permit from the "Autorité des Marchés Financiers" (AMF), the new unified body which has taken up responsibilities of the former Commissions des Operations de Bourse (COB)" (the French equivalent to the SEC). The Council of State stated in December 2001 that the "urgent measures for economic and financial reform" law ("Mesures urgentes de reforme a caractere economique et financiere MURCEF") was not unconstitutional, authorizing foreign companies to provide statements in English and a short summary in French. Based on current regulations an application to the AMF must include a French summary that describes "essential information related to the content and modalities of operations" as well as to the "organization, financial situation and development of the activity of the company". Details may be found on the AMF web site [http://www.amf-france.org], which is merging with the COB web site [http://www.cob.fr].

Regulations will change with the implementation of measures of the European Directive on Prospectus to be published when securities are offered to the public or admitted to trading. The Committee of European Securities Regulators (CESR – http://www.cesr-eu.org/] has launched a number of consultations that address the technical advice required by September 2003 by the European Commission. Measures cover the format of prospectus, disclosure requirements and information included in annual reports. The legislative package for prospectus must come into force in all EU countries on July 1, 2005. The sponsoring bank or broker is responsible for placing the securities with investors when the securities are listed and for acting as a market maker. Special procedures apply to listing on the "Nouveau Marché." Companies must offer at least 100,000 shares with a value of at least E 5 million, or be able to demonstrate comparable liquidity in their home market if already listed on another exchange. Information is available on the Paris bourse website, [http://www.bourse-de-paris.fr] or [http://www.euronext.com].

Cross-Shareholding

An intricate network of cross-shareholdings among French corporations has often been seen as a barrier to foreign acquisition of French firms. Often, two French companies will each own a significant share of the other. This system, which was traditionally a means to help ensure state-control of the economy, has weakened in recent years under the pressure of the marketplace.

Mergers and Acquisitions

Although French laws regarding takeovers do not discriminate against foreign investors, a hostile takeover in France by a foreign investor could face public and even official scrutiny. Provisions of the company takeover law are designed to limit hostile takeovers of publicly traded companies. For example, stockholders are required to reveal themselves to company management and the authorities when their holdings total 5, 10, 20, 33 or 50 percent of the capital of the company. On crossing the 10 percent threshold, purchasers must declare their "intentions" for the period covering the coming twelve months. When a potential investor makes a "public offer to purchase" (OPA) shares in a publicly traded company, that offer must remain open for at least 20 working days for "friendly" bids and 35 working days for "unfriendly" bids. Decrees issued in 2002 to implement the May 2001 new economic regulations law ("Nouvelles Reglementations Economiques - NRE") increased requirements of potential investors for financial transparency and communication with the public, associated companies and their employees. Newcomers to the French stock market should also be aware of the possibility that by-laws of individual companies may impose requirements that purchasers of significant amounts of stock in a company report that purchase to the management of the company.

A10. Political Violence

Occasionally, anti-American sentiments, particularly among groups likely to be economically harmed by U.S. policies, result in demonstrations against U.S. investments. The recent massive demonstrations by anti-globalization protesters at major international conferences and summits around the world, which have resulted in the targeting of U.S. firms and significant property damage, could be replicated in France should there be an attractive opportunity for such groups. However, incidents of this type are mostly isolated, and there is little danger of nascent insurrection, belligerent neighbors, or widespread civil disturbances. Moreover, since the terrorist attacks of September 11, 2001, there have been relatively fewer anti-American demonstrations in France as compared to prior years.

A11. Corruption

France has laws, regulations and penalties that effectively combat acts of corruption committed in France. A 1993 law established a Central Service for the Prevention of Corruption under the aegis of the Ministry of Justice. The French judiciary is responsible for prosecution, and is active in doing so. There have been numerous investigations and convictions of public officials and businessmen under the anti-corruption statutes. Penalties for acts of corruption vary according to the circumstances; they often include fines and prison terms. At the 2003 trial of former executives of the oil company Elf, the prosecution has sought five to eight-year prison sentences as well as fines for three of the main figures among the 37 defendants. The criminal investigation into the activities of the then state-owned oil company was launched in 1994 and is considered France's biggest corruption investigation in recent history.

France ratified the OECD Anti-Bribery Convention and enacted implementing legislation to enforce its provisions in 2000. The OECD Anti-Bribery Conventions is enforced via amendments to the Criminal code, which have been integrated into Articles 435-3 and 435-4 of a new chapter on international corruption (Chapter V, Title III, Book IV). Article 435-3 incriminates the offer or promise of a bribe, but not the actual payment of a bribe, which is explicitly mentioned in the convention. Furthermore, there is a difference in the treatment of victims of bribery, depending on whether the bribery is domestic, EU or foreign. In cases of bribery of GOF/EU officials, any victim may initiate prosecution. In cases involving the bribery of other foreign government officials, on the other hand, criminal proceedings may be initiated only by the public prosecutor on the basis of a complaint from a Government official in the country where the bribery took place. In other words, if the victim were a U.S. company, it would not be able to initiate criminal proceedings under French legislation.

The OECD Anti-Bribery convention is further enforced via amendments to the Tax Code and to the Code of Criminal Procedure. Article 39-2 of the French Tax Code puts an end to the tax deductibility of bribes as of the entry into force in France of the Convention (September 29, 2000). Finally, Article 706-1 of the amended Code of Criminal Procedure provides that acts criminalized by the OECD Convention will be prosecuted in the Economic and Financial Unit of the Paris Court of Justice. More information about France's implementation of the agreement can be found at the OECD's Internet address, www.OECD.org.

France has also begun ratification of the Council of Europe's civil and criminal conventions on corruption. The procedure is expected to be completed during the first half of 2005.

There have been no specific complaints from U.S. firms of unfair competition or investment obstacles due to corrupt practices in France in recent years. More information on the international fight against corruption can be found at the Internet site of Transparency International, www.Transparency.de, a private organization. According to Transparency International's French Chapter, the sectors most affected by corrupt practices tend to be public works and the defense industry.

B. Bilateral Investment Agreements

1959 U.S.-France Convention on Establishment

U.S. investment in France is subject to the provisions of the Convention on Establishment between the United States of America and France, which was signed in 1959 and is still in force. Some of the rights it provides to U.S. nationals and companies include:

- The right to be treated like domestic nationals in all types of commercial activities including the right to establish offices and acquire majority control of French firms. (This right does not apply to firms involved in communications, air transportation, water transportation, banking, the exploitation of natural resources, certain "professions," and the production of electricity) and in obtaining and maintaining patent and trademarks;

- The right to receive the best treatment accorded to either domestic nationals and companies or third country nationals and companies with respect to transferring funds between France and the U.S.; and

- The requirement that property may only be expropriated for a public purpose and that payment must be just, realizable, and prompt.

The treaty does not apply to the use or production of fissionable materials, arms, or any materials used directly or indirectly to supply military establishments. The treaty does not prevent application of measures necessary to protect essential security interests.

Bilateral Investment Treaties

Investments in France by other EU member states are governed by the provisions of the Treaty of Rome and by Union Law. France has also signed Bilateral Investment Treaties (BITs) with the following 61 countries: Albania, Argentina, Armenia, Bangladesh, Bolivia, Bulgaria, Chile, China, the Democratic Republic of the Congo, Croatia, Czech Republic, Ecuador, Egypt, El Salvador, Equatorial Guinea, Estonia, Haiti, Hong Kong, Hungary, Indonesia, Israel, Jamaica, Jordan, Korea (South), Kuwait, Kyrgzistan, Laos, Latvia, Liberia, Lithuania, Malaysia, Malta, Mauritius, Mongolia, Morocco, Nepal, Nigeria, Oman, Pakistan, Panama, Paraguay, Peru, Philippines, Poland, Romania, Russia, Singapore, Slovakia, South Africa, Sri Lanka, Sudan, Syria, Trinidad and Tobago, Turkmenistan, Ukraine, United Arab Emirates, Uruguay, Uzbekistan, Vietnam, Yemen, Yugoslavia (Federal Republic).

Bilateral Investment Treaties signed with the following 22 countries have not yet been ratified: Algeria, Azerbaijan, Brazil, Byelorussia, Costa Rica, Cuba, the Dominican Republic, Georgia, Guatemala, Honduras, India, Kazakhstan, Lebanon, Macedonia, Mexico, Moldavia, Morocco, Namibia, Nicaragua, Qatar, Slovenia, and Tunisia.

French BITs generally cover the following:

- just and equitable treatment that is no less favorable than that accorded to domestic investors or the most favored investor from a third country;

- restrictions on expropriation of investments, and requirements that, in the case of expropriation, compensation be prompt and adequate;

- free transfers; and

- the ability to resolve investor-state disputes through binding international arbitration.

C. OPIC and Other Investment Insurance Programs

Given France's high per capita income, investments in France do not qualify for investment insurance or guarantees offered by the Overseas Private Investment Corporation (OPIC). You can connect with OPIC at www.OPIC.gov.

D. Labor

France's private sector labor force is one of the country's strongest points in attracting foreign investment, combining high quality with relatively competitive unit-wage costs compared with those of other industrialized companies.

The labor code sets minimum standards for working conditions including the workweek, layoffs, overtime, vacation and personal leave. Other labor standards are contained in collective agreements, which are usually negotiated by sector on a national or regional basis by the various unions and employers' associations. French absenteeism is modest by European standards and, in the private sector, peaceful labor relations generally prevail.

While the rate of unionization in France has steadily declined to a little more than half that of the United States, French labor law provides an extensive institutional role for employee representatives and for organized labor.

- In companies with more than 10 employees, employee delegates are elected for a one-year term. They are authorized to present individual or collective claims and grievances relating to working conditions, to inform government labor inspectors of any complaints under the labor law, and to concur with management in any reorganization of the workweek. Management is required to meet with employee delegates at least monthly.

- A company with more than 50 employees must have a joint management/employee enterprise committee, to which employee representatives are elected. The committee must be consulted for all major corporate decisions, but has no veto. The enterprise committee must be provided with the same information that is made available to shareholders. It is funded by the company at a rate equal to at least 0.2 percent of the firm's payroll, and uses this money to finance social and cultural activities for the benefit of employees.

- Workers also hold most slots on occupational health and safety committees, which are mandatory in medium and large size companies. Labor tribunals (playing a role largely equivalent to the NLRB in resolving labor disputes) are comprised of equal numbers of union and employer representatives. Appeals are possible to the level of the “Cour de Cassation,” one of France's high courts.

Due to a variety of macro and microeconomic factors, including high payroll taxes, a high minimum wage, and rigid labor laws, French businesses tend to use less labor-intensive procedures and rely more on laborsaving technology than businesses in other countries. This is one reason for France's high unemployment rate.

While not rejecting outright the 35-hour workweek, the government of Prime Minister Jean-Pierre Raffarin, who took office in May 2002, has made the law less rigid, principally by loosening restrictions on overtime hours. By allowing French employees to work longer overtime hours, the Raffarin government has engineered an effective return to a 39-hour workweek.

E. Foreign Free Trade Zones/Ports

France is subject to all European Union free trade zone regulations and arrangements. These allow member countries to designate portions of their customs territory as free trade zones and free warehouses. France has taken advantage of these regulations in several specific instances. The French Customs Service administers these zones and can provide more details. Customs can be contacted at the finance ministry web address: [http://www.douane.gouv.fr].

In addition, the French government has renewed the tax exemption program for five years in the existing urban "enterprise zones" (Zones Franches Urbaines), for 44 depressed or impoverished municipalities in France or its overseas territories, and added 41 new zones to the list. Since January 2004, any zone benefited from tax exemptions on corporate tax, payroll taxes, professional tax and real estate tax. Related information is available at the City Government web site [http://ville.gouv.fr].

More information on enterprise and investment zones is available from AFII and DATAR : [http://www.zones-franches.org/zones_franches.asp], [http://www.InvestinFrance.org] and [http://www.DATAR.gouv.fr].

F. Foreign Investment Statistics

Foreign investment represents a significant percentage of production in many sectors. Rapid growth in the new technologies sector has given way to renewed growth in traditional sectors: automobiles, metalworking, aerospace, capital goods, and consultancy and services. France has remained one of the main destinations of foreign direct investment (FDI), although foreign investment in industrialized countries has declined. Foreign investment inflows remained significant, but decreased in 2003 by 20.0 percent to 2.7 percent of GDP (versus 3.4percent in 2002) due in part to the worldwide economic slump. Based on preliminary information the U.S. remained one the largest sources of FDI in France. Using Bank of France balance of payments data based on the historical book value of investment, U.S. firms accounted for 15 percent (versus 25% in previous years) of the stock of foreign investment. Using the book value instead of the market value of investments tends to underestimate the value of U.S. investments in France. This is because investments by U.S. companies tend to be considerably older than other countries' investments and because U.S. firms often finance expansions and acquisitions on domestic French capital markets or through subsidiaries in third countries. Thus, much U.S. investment in France is not recorded in balance of payments statistics, even though U.S. citizens ultimately control it.

Correcting for these statistical biases, and including the value of U.S. holdings of French stocks, the market value of the stock of U.S. investment in France may be as much as five times the USD 47.9 billion book value for 2003 reported in U.S. Department of Commerce data [http://www.bea.doc.gov/bea/di1.htm]. About 2,000 affiliates of U.S. firms are established in France. Around 540,000 jobs result from U.S.-origin investments.

Today, foreign-controlled firms play a significant role in France's economy: they account for 22 percent of the workforce, 27 percent of capital expenditures, 30 percent of exports, and 30 percent of production.

An updated list of U.S. investors may be found on [http://www.investinfrance.org/NorthAmerica/YourProject/Database/?l=en]

Lists of foreign investors by industry can be found in local periodicals such as Expansion ("Les 1000 de l'Expansion": [http://www.lexpansion.com/PID/7800.html]). The Expansion link provides useful information on the first 1000 companies and financial institutions established in France.

Stock by country of origin (Book value) (USD billions)

	2000	2001	2002
OECD	251	288	n.a.
EU, of which	185	221	255
United Kingdom	35	45	59
Netherlands	51	58	57
Germany	29	35	45
Belgium	29	39	40
Italy	10	13	14
Other	30	31	40

North America, of which	40	43	51
USA	39	42	50
Canada	1	1	1
Other OECD countries	26	24	n.a.
Switzerland	20	19	21
Japan	5	5	8
Other	2	0	n.a.
Non OECD countries			n.a.
Total	258	300	349
Total as a percent of GDP	19.7	22.7	24.1
(Exchange rate: USD 1.00	Euro 1.08	Euro 1.12	Euro 1.06)

Source: Bank of France

Stock by Industrial Sector of Destination (book value) (USD billions)

	2001	2002
Holdings	104	116
Finance intermediation	45	53
Real estate	30	39
Retail trade	21	19
Chemical industry	13	17
Transportation equipment	6	7
Transportation and Communications	9	7
Food and processed food	5	6
Metal Industry	3	5
Wood industry- publication - printing	4	4
Mechanical industry	3	3
Oil refining	3	3
Other	55	70
Total	300	349
(Exchange rate: USD 1.00	Euro 1.12	Euro 1.06)

Source: Bank of France

Flows by country of origin (Market value) (USD billions)

	2001	2002	2003
OECD	48	51	n.a.
EU, of which	35	37	37
United Kingdom	15	15	7
Netherlands	-1	-1	6
Germany	10	10	8
Belgium	1	1	11

Italy	0	0	-2
Other	10	10	4
New EU members (1)	0.1	0.1	0.2
North America, of which	6	6	10
USA	6	6	4
Canada	0	0	6
Other OECD countries	7	7	n.a.
Switzerland	0	0	2
Japan	3	3	-1
Other	3	3	n.a.
Non OECD countries	-1	-2	n.a.
Total	47	49	52
Total as a percent of GDP	3.8	3.4	2.7
(Exchange rate: USD 1.00	Euro 1.12	Euro 1.06	Euro 0.81)

Source: Bank of France

(1) Cyprus, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Czechoslovakia, Slovakia, and Slovenia.

Stock by country of destination (Book value) (USD billions)

	2000	2001	2002
OECD	404	457	n.a.
EU, of which	217	261	290
Belgium	54	74	83
United Kingdom	56	66	72
Netherlands	40	39	41
Germany	28	27	33
Spain	12	15	18
Italy	13	17	17
Other	14	23	27
North America, of which	149	173	152
USA	113	142	130
Canada	35	32	21
Other OECD countries	38	24	n.a.
Switzerland	17	18	20
Japan	8	8	10
Other	14	-2	n.a.

Non OECD countries	26	61	n.a.
Total	430	517	529
Total as a percent of GDP	32.7	37.8	36.6
(Exchange rate: USD 1.00	Euro 1.08	Euro 1.12	Euro 1.06)

Source: Bank of France

Stock by Industrial Sector Destination (Book value) (USD billions)

	2001	2002
Holdings	174	166
Finance intermediation	114	116
Retail trade	28	32
Computer	26	26
Electricity, natural gas and water	28	25
Transportation equipment	23	24
Chemical industry	16	16
Transportation and communication	11	12
Other	98	111
Total	517	529
(Exchange rate: USD 1.00	Euro 1.12	Euro 1.06)

Source: Bank of France

Flows by country of destination (Market value) (USD billions)

	2001	2002	2003
OECD	85	60	n.a.
EU, of which	56	23	46
United Kingdom	13	4	16
Germany	8	6	8
Italy	4	0	1
Spain	3	2	1
Belgium	22	6	0
Netherlands	1	1	8
Other	5	3	10
New EU members (1)	4	2	1
North America, of which	17	16	9
USA	17	16	8
Canada	0	0	1
Other OECD countries	12	21	n.a.

Switzerland	0	2	5
Japan	0	2	0
Other	12	17	n.a.
Non OECD countries	2	-10	n.a.
Total	87	50	63
Total as a percent of GDP	6.6	3.4	3.3
(Exchange rate: USD 1.00	Euro 1.12	Euro 1.06	Euro 0.81)

Source: Bank of France

(1) Cyprus, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Czechoslovakia, Slovakia, and Slovenia.